



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

June 29, 2020

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on the City of Hartford, Iowa.

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$833,443 for the year ended June 30, 2019. The receipts included \$221,769 of property tax, \$301,123 of charges for services, \$171,211 of operating grants, contributions and restricted interest, \$100,740 of local option sales tax, \$3,563 of unrestricted interest on investments \$29,984 of note proceeds and \$5,053 of other general receipts.

Disbursements for the year ended June 30, 2019 totaled \$694,546 and included \$234,801 for public works, \$136,210 for general government and \$110,884 for public safety. Also, disbursements for business type activities totaled \$175,953.

AUDIT FINDINGS:

Sand reported eleven findings related to the receipt and disbursement of taxpayer funds. They are found on pages 46 through 52 of this report. The findings address issues such as a lack of segregation of duties, lack of monthly reconciliations of bank to book balances and utility billings, disbursements exceeding budgeted amounts and noncompliance with Chapter 388.6 of the Code of Iowa pertaining to non-discriminatory utility rates and Chapter 372.13(6) of the Code of Iowa pertaining to publication of City Council meeting minutes, receipts and disbursements. Sand provided the City with recommendations to address each of the findings.

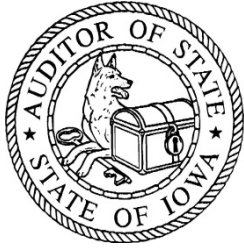
The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

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CITY OF HARTFORD
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2019

City of Hartford



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STATE OF IOWA

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June 23, 2020

Officials of the City of Hartford
Hartford, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Hartford for the year ended June 30, 2019. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Hartford throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand", written in a cursive style.

Rob Sand
Auditor of State

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City of Hartford

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Buzzard	Mayor	(Resigned Feb 2019)
Kandi Petry (Appointed Mar 2019)	Mayor	Nov 2019
Sophia Eckert (Appointed Aug 2018)	Mayor Pro tem	Nov 2019
Lindsey Clark	Council Member	Jan 2020
Kim Crook	Council Member	(Resigned Feb 2019)
Mark Goldsberry	Council Member	Jan 2020
Dana Smith	Council Member	Jan 2022
Amanda Peterson	Council Member	Jan 2022
Brad Herrold	City Clerk	(Retired Jan 2019)
Travis Goldsberry (Appointed Feb 2019)	City Clerk	Indefinite
Matt Brick	Attorney	Indefinite

City of Hartford



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hartford, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinions.

Basis for Qualified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2018.

Qualified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2018, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hartford as of June 30, 2019, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

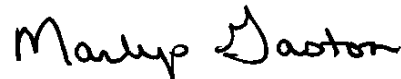
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Other Information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 28 through 34, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 23, 2020 on our consideration of the City of Hartford's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



Marlys K. Gaston, CPA
Deputy Auditor of State

June 23, 2020

City of Hartford

Basic Financial Statements

City of Hartford

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2019

		Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
	Disbursements		
Functions/Programs:			
Governmental activities:			
Public safety	\$ 110,884	18,066	45,983
Public works	234,801	36,071	99,602
Culture and recreation	8,543	-	-
General government	136,210	35,729	25,626
Debt service	28,155	-	-
Total governmental activities	518,593	89,866	171,211
Business type activities:			
Sewer	162,966	188,675	-
Storm water	12,987	22,582	-
Total business type activities	175,953	211,257	-
Total	\$ 694,546	301,123	171,211

General Receipts:

Property and other city tax levied for general purposes

Local option sales tax

Unrestricted interest on investments

Revenue note proceeds

Miscellaneous

Sale of capital assets

Total general receipts

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

Cash Basis Net Position

Restricted:

 Streets

 Other purposes

Unrestricted

Total cash basis net position

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(46,835)	-	(46,835)
(99,128)	-	(99,128)
(8,543)	-	(8,543)
(74,855)	-	(74,855)
(28,155)	-	(28,155)
(257,516)	-	(257,516)
-	25,709	25,709
-	9,595	9,595
-	35,304	35,304
(257,516)	35,304	(222,212)
221,769	-	221,769
100,740	-	100,740
2,868	695	3,563
-	29,984	29,984
2,253	-	2,253
2,800	-	2,800
330,430	30,679	361,109
72,914	65,983	138,897
641,176	721,300	1,362,476
\$ 714,090	787,283	1,501,373
\$ 180,853	-	180,853
19,888	-	19,888
513,349	787,283	1,300,632
\$ 714,090	787,283	1,501,373

City of Hartford

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2019

	General	Special Revenue Road Use Tax
Receipts:		
Property tax	\$ 171,621	-
Other city tax	95,816	-
Licenses and permits	35,151	-
Use of money and property	6,749	-
Intergovernmental	35,666	99,602
Charges for service	50,834	-
Miscellaneous	25,626	-
Total receipts	421,463	99,602
Disbursements:		
Operating:		
Public safety	100,906	-
Public works	121,860	94,764
Culture and recreation	8,512	-
General government	121,434	-
Debt service	-	-
Total disbursements	352,712	94,764
Excess (deficiency) of receipts over (under) disbursements	68,751	4,838
Other financing sources (uses):		
Sale of capital assets	2,800	-
Transfers in	-	-
Transfers out	(29,240)	-
Total other financing sources (uses)	(26,440)	-
Change in cash balances	42,311	4,838
Cash balances (deficits) beginning of year	486,305	176,015
Cash balances end of year	\$ 528,616	180,853
Cash Basis Fund Balances		
Restricted for:		
Streets	\$ -	180,853
Other purposes	-	-
Unassigned	528,616	-
Total cash basis fund balances	\$ 528,616	180,853

See notes to financial statements.

Nonmajor	Total
50,148	221,769
4,924	100,740
-	35,151
-	6,749
-	135,268
-	50,834
12,570	38,196
67,642	588,707
9,978	110,884
18,177	234,801
31	8,543
14,776	136,210
28,155	28,155
71,117	518,593
(3,475)	70,114
-	2,800
29,240	29,240
-	(29,240)
29,240	2,800
25,765	72,914
(21,144)	641,176
4,621	714,090
-	180,853
19,888	19,888
(15,267)	513,349
4,621	714,090

City of Hartford

City of Hartford

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2019

	Enterprise		
	Sewer	Nonmajor	Total
Operating receipts:			
Charges for service	\$ 185,225	22,582	207,807
Operating disbursements:			
Business type activities	94,658	12,987	107,645
Excess of operating receipts over operating disbursements	90,567	9,595	100,162
Non-operating receipts (disbursements):			
Interest on investments	695	-	695
Miscellaneous	3,450	-	3,450
Revenue note proceeds	29,984	-	29,984
Debt service	(24,220)	-	(24,220)
Capital projects	(44,088)	-	(44,088)
Net non-operating receipts (disbursements)	(34,179)	-	(34,179)
Change in cash balances	56,388	9,595	65,983
Cash balances beginning of year	621,841	99,459	721,300
Cash balances end of year	\$ 678,229	109,054	787,283
Cash Basis Fund Balances			
Unrestricted	\$ 678,229	109,054	787,283

See notes to financial statements.

City of Hartford

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

The City of Hartford is a political subdivision of the State of Iowa located in Warren County. It was first incorporated in 1978 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides sewer and storm water utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hartford has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Hartford (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational financial relationship with the City.

Blended Component Unit – The Hartford Fire Department Enterprise was organized under Chapter 504 of the Code of Iowa as a non-profit corporation. The purpose of the organization is to assist the Hartford Fire and Rescue Department in the execution and performance of fire prevention, protection and suppression and general emergency response and to conduct fund raising activities to support the community and the Hartford Fire and Rescue Department. The Hartford Fire Department Enterprise is legally separate from the City but is so intertwined with the City is, in substance, the same as the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Warren County Emergency Management Commission, and Warren County Joint 911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor governmental funds and enterprise funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2019, disbursements exceeded the amounts budgeted in the public safety and general government functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2019 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and sewer revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 23,000	4,423	17,000	6,020	40,000	10,443
2021	23,000	3,675	17,000	5,723	40,000	9,398
2022	23,000	2,928	18,000	5,425	41,000	8,353
2023	23,000	2,180	18,000	5,110	41,000	7,290
2024	23,000	1,433	19,000	4,795	42,000	6,228
2025-2029	23,000	685	99,000	18,935	122,000	19,620
2030-2034	-	-	109,000	9,923	109,000	9,923
2035-2036	-	-	47,000	1,243	47,000	1,243
Total	\$ 138,000	15,324	344,000	57,174	482,000	72,498

General Obligation Capital Loan Notes

On May 1, 2015, the City issued \$230,000 of general obligation capital loan notes for the purpose of paying the costs of equipping the fire department. The loan bears interest at 3.25% per annum and mature on May 1, 2025. During the year ended June 30, 2019, the City paid principal of \$23,000 and interest of \$5,155 on the notes. The outstanding principal balance at June 30, 2019 was \$138,000.

Revenue Bonds

On August 12, 2016, the City entered into a loan agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of \$415,000 of sewer revenue bonds with interest at 1.75% per annum. The agreement also required the City to pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements to the wastewater treatment system. The City completed the project drawing down a total of \$393,824 of the bonds. During the year ended June 30, 2019 the City paid principal of \$17,000 and interest of \$6,318 on the bonds. At June 30, 2019 the outstanding principal balance was \$344,000.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the \$393,824 of the sewer revenue bonds. The bonds are payable solely from sewer customer net receipts and are payable through 2036. For the year ended June 30, 2019, annual principal and interest payments on the bonds required 26% of net receipts. The total principal and interest remaining to be paid on the bonds is \$401,174. For the year ended, principal and interest paid and total customer net receipts were \$23,318 and \$90,567, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bond falling due in the same year.

Sewer Revenue Capital Loan Anticipation Project Note

On April 7, 2017, the City entered into a loan anticipation project note agreement with the Iowa Finance Authority to borrow \$669,000 to pay the cost to finance the upgrade of the wastewater treatment system project. The note bears interest of 0% per annum and matures on April 7, 2020. The note agreement has been amended to extend the maturity date to April 7, 2023. The City drew down \$29,984 on the notes during the year ended June 30, 2019. As of June 30, 2019, the City has drawn down \$81,610 on the notes.

Bank Loans

On July 25, 2017, the City entered into a promissory note for \$31,931 with Great Western Bank for the purchase of a vehicle for the City to be used for public works. The note bears interest at the rate of 4.75% per annum and matures on July 25, 2022. The note requires monthly interest payments and an annual principal payment. During the year ended June 30, 2019, the city paid \$6,386 of principal and \$1,254 of interest. The outstanding note balance at June 30, 2019 is \$25,545.

On January 2, 2019, the City entered into a promissory note for \$22,986 with Great Western Bank to purchase a vehicle for the Fire Department. The note bears interest at the rate of 5.25% per annum and matures on January 5, 2023. The note requires monthly interest payments and an annual principal payment. During the year ended June 30, 2019, the City paid \$2,167 of principal and \$446 of interest. The outstanding note balance at June 30, 2019 is \$20,819.

Year Ending June 30,	City Truck		Fire Truck		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 6,386	950	5,415	980	11,801	1,930
2021	6,386	640	5,713	682	12,099	1,322
2022	6,386	333	6,026	370	12,412	703
2023	6,387	25	3,665	66	10,052	91
Total	\$ 25,545	1,948	20,819	2,098	46,364	4,046

Capital Lease Purchase Agreement

On October 23, 2013, the City entered into a capital lease purchase agreement for \$43,000 to acquire a truck. The agreement requires six annual payments of \$8,189 including interest at 3.95% per annum. During the year ended June 30, 2019, the city paid \$7,586 of principal and \$603 of interest.

The following is the schedule of the future minimum lease payment and the present value of the net minimum lease payment under the agreement in effect at June 30, 2019.

Year Ending June 30,	Truck
2020	\$ 8,189
Less amount representing interest	(298)
Present value of net minimum lease payment	\$ 8,487

(4) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55 and may retire any time after reaching age 50 with 22 or more years of covered employment.

The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. Protection occupation members contributed 6.81% of covered payroll and the City contributed 10.21% of covered payroll, for a total rate of 17.02%.

The City's contributions to IPERS for the year ended June 30, 2019 totaled \$7,235.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the City reported a liability of \$112,898 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2018, the City's proportion was 0.001784%, which was a decrease of 0.000064% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$15,297, \$16,725 and \$5,654, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2018 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	6.01%
International equity	15.0	6.48
Global smart beta equity	3.0	6.23
Core plus fixed income	27.0	1.97
Public credit	3.5	3.93
Public real assets	7.0	2.91
Cash	1.0	(0.25)
Private equity	11.0	10.81
Private real assets	7.5	4.14
Private credit	3.0	3.11
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 191,610	112,898	46,870

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and personal time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's liability for earned vacation and personal time payable to employees at June 30, 2019, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Personal time	\$ 427

This liability has been computed based on rates of pay in effect at June 30, 2019.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2019 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General Fund	\$ 29,240

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Deficit Balances

The Special Revenue, Employee Benefits Fund and the Debt Service Fund had deficit balances of \$14,894 and \$373, respectively, at June 30, 2019. The deficit balances were a result of costs incurred prior to the availability of funds. The City is working to eliminate these deficit balances.

(9) Subsequent Event

The COVID-19 outbreak is disrupting business across a range of industries in the United States and financial markets have experienced a significant decline. As a result, local, regional and national economies, including that of the City of Hartford may be adversely impacted. The extent of the financial impact of COVID-19 will depend on future developments, including the duration and spread, which are uncertain and cannot be predicted. Due to the uncertainties surrounding the outbreak, management cannot presently estimate the potential impact to the City's operations and finances.

City of Hartford

Other Information

City of Hartford

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2019

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted
Receipts:			
Property tax	\$ 221,769	-	-
Other city tax	100,740	-	-
Licenses and permits	35,151	-	-
Use of money and property	6,749	695	-
Intergovernmental	135,268	-	-
Charges for service	50,834	207,807	-
Miscellaneous	38,196	3,450	10,317
Total receipts	588,707	211,952	10,317
Disbursements:			
Public safety	110,884	-	-
Public works	234,801	-	9,863
Culture and recreation	8,543	-	-
Community and economic development	-	-	-
General government	136,210	-	-
Debt service	28,155	-	-
Business type activities	-	175,953	-
Total disbursements	518,593	175,953	9,863
Excess of receipts over disbursements	70,114	35,999	454
Other financing sources, net	2,800	29,984	-
Excess of receipts and other financing sources over disbursements and other financing uses	72,914	65,983	454
Balances beginning of year	641,176	721,300	14,510
Balances end of year	\$ 714,090	787,283	14,964

See accompanying independent auditor's report.

	Original/ Total Final Budget	Budget to Total Variance
221,769	213,134	8,635
100,740	139,122	(38,382)
35,151	7,075	28,076
7,444	4,200	3,244
135,268	130,500	4,768
258,641	324,600	(65,959)
31,329	-	31,329
790,342	818,631	(28,289)
110,884	77,977	(32,907)
224,938	251,484	26,546
8,543	10,200	1,657
-	3,000	3,000
136,210	105,242	(30,968)
28,155	28,170	15
175,953	264,228	88,275
684,683	740,301	55,618
105,659	78,330	27,329
32,784	-	32,784
138,443	78,330	60,113
1,347,966	1,297,139	50,827
1,486,409	1,375,469	110,940

City of Hartford

Notes to Other Information – Budgetary Reporting

June 30, 2019

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2019, disbursements exceeded the amounts budgeted in the public safety and general government functions.

City of Hartford

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Two Years*
(In Thousands)

Other Information

	2019	2018
City's proportion of the net pension liability	0.001784%	0.001848%
City's proportionate share of the net pension liability	\$ 113	123
City's covered payroll	\$ 92	89
City's proportionate share of the net pension liability as a percentage of its covered payroll	122.83%	138.20%
IPERS' net position as a percentage of the total pension liability	83.62%	82.21%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Hartford
Schedule of City Contributions
Iowa Public Employees' Retirement System
For the Last Nine Years
(In Thousands)

Other Information

	2019	2018	2017	2016
Statutorily required contribution	\$ 7	8	8	8
Contributions in relation to the statutorily required contribution	(7)	(8)	(8)	(8)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered payroll	\$ 77	92	89	90
* Contributions as a percentage of covered payroll	9.44%	8.93%	8.93%	8.93%

* Amounts reported do not agree with calculated amounts due to rounding required contributions and covered payroll to the nearest thousandth

Note: GASB Statement No. 68 required ten years of information be presented in the table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report.

2015	2014	2013	2012	2011
8	8	7	6	5
(8)	(8)	(7)	(6)	(5)
-	-	-	-	-
88	91	85	80	78
8.93%	8.79%	8.67%	8.08%	6.95%

City of Hartford

Notes to Other Information – Pension Liability

Year ended June 30, 2019

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

Supplementary Information

City of Hartford

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2019

	Special Revenue		
	Employee	Local	Hartford
	Benefits	Option	Fire
		Sales	Department
		Tax	Enterprise
Receipts:			
Property tax	\$ 50,148	-	-
Other city tax	-	4,924	-
Miscellaneous	2,253	-	10,317
Total receipts	52,401	4,924	10,317
Disbursements:			
Operating:			
Public safety	115	-	9,863
Public works	18,177	-	-
Cultures and recreation	31	-	-
General government	14,776	-	-
Debt service	-	-	-
Total disbursements	33,099	-	9,863
Excess (deficiency) of receipts over (under) disbursements	19,302	4,924	454
Other financing uses:			
Transfers in	-	-	-
Change in cash balances	19,302	4,924	454
Cash balances (deficits) beginning of year	(34,196)	-	14,510
Cash balances (deficits) end of year	\$ (14,894)	4,924	14,964
Cash Basis Fund Balances (Deficits)			
Restricted for other purposes	\$ -	4,924	14,964
Unrestricted	(14,894)	-	-
Total cash basis fund balances (deficits)	\$ (14,894)	4,924	14,964

See accompanying independent auditor's report.

Debt Service	Total
-	50,148
-	4,924
-	12,570
-	67,642
-	9,978
-	18,177
-	31
-	14,776
28,155	28,155
28,155	71,117
(28,155)	(3,475)
29,240	29,240
1,085	25,765
(1,458)	(21,144)
(373)	4,621
-	19,888
(373)	(15,267)
(373)	4,621

City of Hartford

City of Hartford

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2019

	Enterprise		
	Water	Storm Water	Total
Operating receipts:			
Charges for services	\$ -	22,582	22,582
Operating disbursements:			-
Business type activities	-	12,987	12,987
Excess of receipts over disbursements	-	9,595	9,595
Cash balances beginning of year	51,516	47,943	99,459
Cash balances end of year	<u>\$ 51,516</u>	<u>57,538</u>	<u>109,054</u>
Cash Basis Fund Balances			
Unrestricted	<u>\$ 51,516</u>	<u>57,538</u>	<u>109,054</u>

See accompanying independent auditor's report.

City of Hartford
Schedule of Indebtedness
Year ended June 30, 2019

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan note:			
Fire department equipment	May 1, 2015	3.25%	\$ 230,000
Revenue bonds:			
Sewer	Aug 12, 2016 *	1.75%	\$ 393,824
Sewer anticipation project note	Apr 7, 2017	0.00	81,610
Total			
Bank loans:			
Truck	Jul 25, 2017	4.75%	\$ 31,931
Fire truck	Jan 2, 2019	5.25	22,986
Total			
Capital lease:			
Truck	Oct 23, 2013	3.95%	\$ 43,000

* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
161,000	-	23,000	138,000	5,155
361,000	-	17,000	344,000	6,318
51,626	29,984	-	81,610	-
\$ 412,626	29,984	17,000	425,610	6,318
31,931	-	6,386	25,545	1,254
	22,986	2,167	20,819	446
\$ 31,931	22,986	8,553	46,364	1,700
15,477	-	7,586	7,891	603

City of Hartford

City of Hartford
Bond and Note Maturities
June 30, 2019

Year Ending June 30,	G.O. Capital Loan Note		Bank Loans					
	Series 2015		City Truck			Fire Truck		
	Issued May 1, 2015		Issued July 25, 2017			Issued Jan 2, 2019		
	Interest		Interest			Interest		
	Rates	Amount	Rates	Amount		Rates	Amount	Total
2020	3.25%	\$ 23,000	4.75%	\$ 6,386		5.25%	\$ 5,415	11,801
2021	3.25	23,000	4.75	6,386		5.25	5,713	12,099
2022	3.25	23,000	4.75	6,386		5.25	6,026	12,412
2023	3.25	23,000	4.75	6,387		5.25	3,665	10,052
2024	3.25	23,000		-			-	-
2025	3.25	23,000		-			-	-
Total		\$ 138,000		\$ 25,545			\$ 20,819	46,364

Year Ending June 30,	Revenue Bonds	
	Issued Aug. 12, 2016	
	Interest Rates	Amount
2020	1.75%	\$ 17,000
2021	1.75	17,000
2022	1.75	18,000
2023	1.75	18,000
2024	1.75	19,000
2025	1.75	19,000
2026	1.75	19,000
2027	1.75	20,000
2028	1.75	20,000
2029	1.75	21,000
2030	1.75	21,000
2031	1.75	21,000
2032	1.75	22,000
2033	1.75	22,000
2034	1.75	23,000
2035	1.75	23,000
2036	1.75	24,000
Total		<u>\$ 344,000</u>

See accompanying independent auditor's report.



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**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hartford, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 23, 2020. Our report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, since, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hartford's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hartford's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hartford's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Hartford's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D) and (E) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hartford's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2019 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

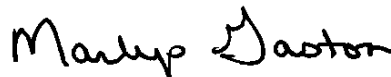
City of Hartford's Responses to the Findings

The City of Hartford's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Hartford's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hartford during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Marlys K. Gaston, CPA
Deputy Auditor of State

June 23, 2020

City of Hartford

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – One individual in the City has control over the following areas for which no compensating controls exist:

- (1) Accounting system - performance of all accounting functions and having custody of assets.
- (2) Cash – handling, recording and reconciling.
- (3) Receipts - opening mail, collecting, depositing, recording and reconciling.
- (4) Utilities – billing, collecting, depositing, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, recording, and reconciling
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Journal entries – preparing and journalizing.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. The City should utilize current personnel and officials to provide additional controls through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

City of Hartford

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Response – With the current City Council, City Clerk and Mayor, additional controls have been implemented to assist in segregation of duties. The City Clerk now prepares all incoming mail for review and acknowledgement by the Mayor prior to cutting checks for payment. Once checks are issued, the Mayor must review again for accuracy of issuance and sign off on the payment. All timecards are reviewed and approved by the Mayor prior to processing payroll by the City Clerk. Once processed, all reports and paystubs are reviewed and acknowledged by the Mayor prior to dissemination. All tax reports and payments are reviewed and acknowledged by the Mayor prior to the City Clerk action. The Mayor reviews all postings associated with G-Works processing and works with the City Clerk to ensure debits and credits are allocated appropriately. All actions are shared with the City Council monthly for review and discussion.

Conclusion – Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Condition – The City contracts for the utility billings and collections. The City receives the fees collected and the billing report monthly. However, the City does not receive a detailed report of customer receipts and a listing of delinquent accounts. As a result, the City is unable to perform a reconciliation of utility billings to receipts to enable the City to monitor and ensure utility fees received are accurate.

Cause – Policies have not been established and procedures have not been implemented to obtain information to allow the City to reconcile utility billings, collections and delinquent account balances to fees received.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation – Procedures should be established to obtain the necessary information to reconcile utility billings, collections and delinquent accounts for each billing period to receipts. The City should review the reconciliations and monitor delinquencies.

Response – At this time, the Warren Water District does not offer any customer reporting to reconcile against. We use the amount collected and sent to us by the Warren Water District to work backwards to pay the trash collection fees from Aspen and state sales tax. The leftover balance is calculated against expected sewer revenue, sewer repairs and the storm water fund.

Conclusion – Response acknowledged. The City should work with the Warren Water District to obtain the necessary information to reconcile utility billings, collections and delinquent accounts for each billing period to receipts.

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Year ended June 30, 2019

(C) Bank Reconciliation

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by reconciling bank and book balances. Supervisory review of bank reconciliations can help ensure the accuracy of recorded amounts.

Condition – The City does not reconcile book balances to the bank accounts monthly. Also, a list of outstanding items is not maintained.

Cause – The City has not established policies and procedures to reconcile the book balances to the bank accounts monthly.

Effect – Lack of bank to book reconciliation can result in unrecorded transactions, undetected errors and the opportunity for unauthorized transactions.

Recommendation – The City should establish policies and procedures to complete a monthly bank reconciliation to the City records. Support for reconciling items should be maintained. In addition, the reconciliation should be reviewed and approved by an independent person. This review should be documented by the signature or initials of the reviewer and the date of the review.

Response – Effective March 2019 the new City Clerk began reconciling bank statements in G-Works and this continues. All reconciliations are reviewed by the City Council and Mayor monthly.

Conclusion – Response accepted.

(D) Computer System

Criteria – Properly designed policies and procedures pertaining to control activities over the City's computer system and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable and help support the achievement of the objectives of reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have written policies or procedures for:

- (1) Requiring lock out procedures if the password is incorrectly entered three times in a row.
- (2) Requiring password changes because software does not require the user to change logins/passwords, preventing the reuse of the same password and preventing employees from sharing passwords.
- (3) Password privacy and confidentiality.

Also, the City does not have a written disaster recovery plan.

Cause – Management has not required written policies for the above computer-based controls.

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Effect – Lack of written policies for computer-based systems could result in a loss of data or compromised data, resulting in unreliable financial information. The failure to have a formal disaster recovery plan could result in the City's inability to function in the event of a disaster or continue City business without interruption.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over its computer systems. A written disaster recovery plan should be developed.

Response – The City will work on creating a written disaster recovery policy. We do have regular backups of the system by our IT Contractor.

Conclusion – Response accepted.

(E) Journal Entries

Criteria – An effective internal control system provides for internal controls related to the preparation of journal entries. Supporting documentation for all journal entries supports the accuracy of the entries and an independent review helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – Supporting documentation was not maintained for all journal entries made for corrections or balancing purposes. In addition, there was no evidence of an independent review for journal entries tested.

Cause – City policies do not require, and procedures have not been designed to provide supporting documentation for all journal entries and to document the review and approval of journal entries.

Effect – Lack of supporting documents and independent review and approval of journal entries could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – To strengthen controls, supporting documentation should be maintained for all journal entries. The journal entries and support should be reviewed by an independent person and the review documented by the initials and date of review.

Response – As indicated above this has been corrected with the new City Clerk and Mayor.

Conclusion – response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the public works and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Also, notice of the public hearing on the original budget was not published “not less than ten nor more than twenty” days before the hearing in accordance with Chapter 384.16(3) of the Code of Iowa.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also, the City should ensure the notice of public hearing is published in accordance with Chapter 384.16(3) of the Code of Iowa.

Response – The new City Clerk and Mayor are working to correctly publish notices and amend the budget as necessary.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Travis Goldsberry, City Clerk Owner of Goldsberry Giraffix	Screen printing shirts for public works and fire and rescue	\$ 805

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Clerk do not appear to represent conflicts of interest since total transactions with the individual were less than \$1,500 during the fiscal year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

City of Hartford

Schedule of Findings and Questioned Costs

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- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

However, the following instances of noncompliance with Chapter 372.13(6) of the Code of Iowa were noted:

- (1) Minutes were not published within 15 days for 2 of 4 minutes tested.
- (2) A summary of receipts by fund was not published for 2 of 4 minutes tested.
- (3) A list of claims allowed and total disbursements by fund were not included in 1 of 4 minutes tested.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen day as required. In addition, the City Council meeting minutes should include a summary of receipts and a list of claims allowed by fund.

Response – The new City Clerk and Mayor are working to correctly submit for publication all City Council minutes within the week they occur. Additionally, we are now publishing a summary of receipts by fund and claims allowed/disbursed with those meeting minutes.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds – No instances of non-compliance with the revenue note resolutions were noted.
- (9) Fund Transfers – In accordance with Chapter 545-2.1 of the Administrative Code of Iowa, a fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred. During the year ended June 30, 2019, the City did not complete a resolution for the fund transfer of \$29,240.

Recommendation – The City should comply with the Administrative Code of Iowa and complete a fund transfer resolution for all transfers between funds.

Response – The new City Clerk and Mayor are working to comply with all administrative codes. Going forward from this audit all transfers will comply with the Administrative Code of Iowa.

Conclusion – Response accepted.

- (10) Financial Condition – The Employee Benefits and Debt Service Funds had deficit fund balances of \$14,894 and \$373 respectively, at year end.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position.

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Response – The new City Clerk and Mayor will investigate further these fund balances to balance them at year end.

Conclusion – Response accepted.

- (11) Solid Waste Collection Fee – Chapter 388.6 of the Code of Iowa states, “A city utility or combined utility system may not provide use or service at a discriminatory rate, except to the City or its agencies, as provided in Chapter 384.91.” The solid waste collection fee for a senior citizen is \$1.25 less per month than the regular solid waste collection fee.

Recommendation – The City is required to establish and apply consistent billing rates to certain types of customers, such as residential or commercial. The City Council should implement procedures which ensure nondiscriminatory solid waste rates are charged for all customers.

Response – We will request additional guidance from the League of Cities on this issue as the contractor sets the rates for customers, not the City.

Conclusion – Response acknowledged, in addition, the City should consult legal counsel.

- (12) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and the back of each cancelled check. The City does not obtain an image of the front and back of each cancelled check as required for the City.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check for all accounts, as required.

Response – The City will reach out to our banking institution regarding this chapter of the Code of Iowa and work with them to ensure we are compliant going forward.

Conclusion – Response accepted.

City of Hartford

Staff

This audit was performed by:

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